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INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY
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RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

C O N F I D E N T I A L JERUSALEM 001766

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NEA FOR FRONT OFFICE; NEA/IPA FOR SHAMPAIN/BELGRADE; NSC
FOR ABRAMS/SINGH; TREASURY FOR
HARRIS/LOEFFLER/NUGENT/HIRSON; BRUSSELS FOR LERNER

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TAGS: [EFIN](#) [EAID](#) [ECON](#) [KWBG](#) [IS](#)

SUBJECT: PA MORE THAN 1.5 BILLION IN THE RED FOR 2007;
ISRAELI TRANSFERS TO MASK THE PROBLEM FOR ONLY A LITTLE
LONGER

Classified By: Acting Principal Officer Thomas Duffy for reasons 1.4 b,
d.

¶1. (U) On August 20, the Palestinian Authority (PA) Cabinet approved its 2007 budget, with total expenditures of USD 2.5 billion and an estimated budget deficit of more than USD 1.5 billion this calendar year. The PA's wage bill remains its single largest expenditure: more than USD 1.3 billion a year.

In addition, the PA will fund USD 500 million of "net lending" this year, which includes deductions for dues owed to Israeli utility companies, transfers to the electricity sector and subsidies for Palestinian fuel and utility costs.

¶2. (C) In addition, the PA continues to owe substantial arrears, estimated at close to one billion USD, to its employees and private sector businesses. The PA has used recent clearance transfers to begin paying these arrears: one Palestinian businessman told Econoff that he had been paid one-quarter of the two million USD he was owed by the PA.

¶3. (C) The PA's dismal fiscal situation is temporarily masked by the resumption of revenue transfers from the GOI, including the transfer of funds withheld between March 2006 and July 2007. In early August, the GOI transferred USD 170 million to the PA (representing 90 million from withheld funds and 80 million from July's collections). The PA Ministry of Finance (MOF) estimates that the GOI still holds 1.2 billion NIS (USD 300 million) of withheld revenue and expects these funds to be transferred in three monthly installments. The MOF is negotiating now with the GOI on the amount to be transferred in early September. These funds would then be used by the PA to pay its August wage bill (and presumably some of its arrears).

¶4. (C) The PA will be able to pay salaries through October based on expected transfers of withheld funds from the GOI. MOF officials say they will be able to pay November salaries (in early December) with the tail of those transfers. By December, given the PA's monthly operating deficit of approximately USD 100 million and with the store of withheld funds used up, the PA will not generate enough revenue to cover salaries. MOF officials expect to be forced to rely on cash-on-hand to pay the December wage bill. Absent significant other sources of money, the PA will then quickly face an acute crisis. Even in the most optimistic scenario, the PA will not only be unable to make salary payments, but it will still have substantial arrears to its public and private sectors.

15. (C) The actual moment of crisis may be delayed only slightly by improved cooperation with the GOI. MOF DG Hatem Youssef told Econchief that the GOI's Airport Authority had just transferred 50 million NIS (USD 12 million) to the PA from Allenby bridge crossing fees. He is also optimistic that there's more to be "found" in discussions with the Israelis, as the two sides go back through the deductions taken from clearance revenues for payments to Israeli firms by the GOI over the months that the two sides were not communicating. Youssef claims the working-level contacts with his GOI counterparts are "going pretty well" and he praised them as "open-minded and professional."

DUFFY